

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6958

Petition and tariff filing of Green Mountain)
Power Corporation re: proposed rate design)
changes to take effect January 1, 2005)

PREFILED TESTIMONY OF
WILLIAM STEINHURST
ON BEHALF OF AARP

August 30, 2004

Summary: Dr. Steinhurst's testimony reviews several concerns regarding Green Mountain Power's proposed cost of service allocations and tariff designs and recommends changes that should be made to the proposed rate design.

1 Prefiled Testimony
2 of
3 William Steinhurst
4
5

6 Q. Please state your name and occupation.

7 A. My name is William Steinhurst, and I am Senior Consultant with Synapse Energy
8 Economics (Synapse). My business address is 45 State Street, #394, Montpelier,
9 Vermont 05602
10

11 Q. On whose behalf did you prepare this prefiled testimony?

12 A: I prepared this testimony on behalf of AARP. On behalf of the Conservation Law
13 Foundation, I have also prepared separate and independent prefiled testimony on related
14 but distinct issues in this proceeding. However, a few of the issues I raise in my
15 testimony on behalf of AARP are also of concern to CLF. I point out those cross over
16 issues in my testimony on behalf of CLF.
17

18 Q. Have you testified previously before this Board?

19 A: Yes, I have testified before the Vermont Public Service Board in numerous
20 proceedings. A resume, including a list of dockets in which I have testified, is attached to
21 this testimony as Exh. AARP/WS-1.
22

23 Q. Please summarize your testimony.

24 A. On March 26, 2004, Green Mountain Power (GMP, the Company) filed testimony
25 by witnesses James Brown and David Martin, along with spreadsheets reflecting a Fully
26 Allocated Class Cost of Service Study (FACCSS) and proposed tariffs and tariff riders,
27 many of them new. On July 2, 2004, the Company filed revised testimony and exhibits. I
28 have reviewed those revised materials and have identified a number of methodology and
29 design choices that are inappropriate. In my the rest of my testimony I will explain these

1 concerns and how those inappropriate methodologies and rate design choices should be
2 corrected. I recommend that the Board require GMP to implement those changes in a new
3 FACCSS and new tariffs and to make a compliance filing reflecting them before
4 implementing any rate design changes.

5
6 **Concerns with GMP's Fully Allocated Class Cost of Service Study**

7 Q. What is the nature and purpose of a FACCSS?

8 A. Utility rate design consists of two broad phases: cost allocation and tariff design.
9 The purpose of the cost allocation phase is to fairly and accurately assign costs among rate
10 classes.

11
12 Q. Where is GMP's FACCSS described/

13 A. The various types of allocators in proposed GMP FACCSS is summarized in Exh.
14 GMP/JWB-1. The various cost categories and the particular allocator proposed for each
15 one is shown in Exh. GMP/JWB-1A. The costs are shown in the rows of that exhibit's
16 tables and the proposed allocator for each row is in the column marked "Alloc Basis."

17
18 Q. What is your first concern with GMP's revised FACCSS?

19 A. According to the FERC Uniform System of Accounts (USOA), Accounts 920
20 (Administrative and General Expenses-Salaries) through 935 (Administrative and
21 General Expenses-Maintenance Expense-General Plant) consist of costs not assignable to
22 any specific function.¹ 18 CFR Pt. 101 generally. As stated by GMP, its Factor 19 is

¹ For example, the definition of Account 920 states that, " This account shall include the compensation (salaries, bonuses, and other consideration for services, but not including directors' fees) of officers, executives, and other employees of the utility properly chargeable to utility operations and not chargeable directly to a particular operating function." The FERC definitions for these accounts include a few items that arguably might be allocable by customer counts, but they are a minority and intertwined with G&A expenses. One example is building service expenses for a variety of purposes one of which is customer accounts, but the same item

1 intended for "Customer-Customer Accounting," and is driven mainly by customer counts
2 according to GMP's explanation of this factor. Exh. GMP/JWB-1 at 4. This is
3 inappropriate and unfair.

4 Factor 19, which divides costs between customer classes based on the number of
5 customers in each class is suitable for allocating customer accounting costs for two
6 reasons. First, there is a direct and unambiguous causal relationship between the expense
7 for customer account and the number of customers. Second, the costs included in the
8 Customer Accounting category is well defined by FERC and limited to costs that are
9 appropriate to treat in that manner.

10 These two facts do not apply to Administrative and General Expenses. Rather,
11 those expenses are costs that are, by definition, not be "assignable to any specific
12 function." It is unreasonable to treat such genuinely unassignable costs with an allocator
13 suitable for customer accounting costs for two reasons. First, there is no *a priori* reason to
14 think that A&G costs are caused by customer classes in proportion to the number of
15 customers in each class. In fact, one might reasonably believe that high volume, powerful
16 customers consume more management attention per customer than low volume
17 customers. Second, a large amount of A&G expense is devoted to general management,
18 regulatory expenses, and pensions and benefits. Part of general management is ,
19 necessarily, devoted to overseeing power supply, finance, and similar matters attributable
20 in large part, to power supply issues. Rate cases are a large part of A&G expense and are
21 driven, in large part by power costs, financial issues, and broad economic trends. I can
22 state from personal experience that residential rate case issues do not typically take up an
23 amount of the Parties' time anywhere near proportionate to the number of customers in
24 that class. Rather, it would be more reasonable to allocate A&G expenses based on
25 energy consumption or some other broad based factor.

26 I recommend that the Board require GMP to allocate A&G expenses based on

has other building services intermixed. Account 931 (Rents) is defined in a similar manner.

1 class energy consumption or, in the alternative, class revenues.

2
3 Q. What is your second concern with GMP's revised FACCSS?

4 A. GMP's FACCSS allocates Plant in Service in those portions of Account 364, 365
5 and 366 relating to secondary lines, as well as that portion of Account 368 (Line
6 Transformers) relating to secondaries and several other accounts, using its Factor 6. Exh.
7 GMP/JWB-1, page 3, defines Factor 6 using the sum of the diversified demands of the
8 customers in each class. That same exhibit states that this is the same factor applied to
9 costs for individual customer service drops in Factor 7.² While this definition might be
10 reasonable for individual customer service drops where each installation needs to be large
11 enough for the individual customer's maximum load, it is not appropriate for secondary
12 lines, conductors, transformers and the like. The sizing of those other secondary facilities
13 takes into account (or *should* take into account) the diversity of loads among the
14 customers on each facility. (With regard to secondary line transformers, rural residential
15 customers may be served by a single transformer, but for other portions of GMP's service
16 territory, this is not typically the case.) It is inappropriate to exclude that diversity in
17 allocating these costs. Of further concern is that the amounts allocated in this manner are
18 used internally to further allocate certain operating expenses. For example, Factors 26, 27
19 and 28 are used to allocate various material costs including rate base and depreciation
20 expense. Those factors, in turn, depend on the amount of plant allocated to each class by
21 other factors, including Factor 6.

22 I recommend that the Board direct GMP to replace Factor 6 as applied to the
23 above mentioned accounts with an allocation based on class energy use. This approach is
24 used by several utilities and is reasonable because, while secondary facilities are *sized* for
25 (class diversified) peak load, they are built for the purpose of delivering energy. In the
26 alternative, if the Board chooses not to follow that recommendation, I would recommend

² The numbers for Factors 6 and 7 are actually slightly different.

1 using Factor 4 or, in the alternative, a simple average of Factors 4 and 6 to reflect that
2 there is, in fact, some diversity in class loads. Factor 4 would be reasonable to rely on, in
3 whole or in part, if energy is not used as an allocator, because GMP has a relatively dense
4 service territory that leads to diversity among loads.

5
6 **Concerns with GMP's Tariff Designs**

7
8 Q. What is the nature and purpose of public utility tariff design?

9 A. Once cost allocation has ensured fair division of costs among customers in
10 customer classes in a manner that can yield the appropriate total revenue, tariff designs
11 should be practical, unambiguous, stable over time, without undue discrimination, and
12 provide efficient price signals.

13
14 Q. What is your first concern with GMP's tariff designs on behalf of AARP?

15 A. I am concerned that the Rate 01 Monthly Customer Charge is too large. The value
16 of \$11.27 per month per customer is very high compared to other utilities in our region. A
17 charge of this magnitude, especially one that the customer is unable to respond to by
18 altering usage is very regressive and particularly damaging to low income consumers.

19 A recent check of selected residential electric utility customer charges in New
20 England states showed charges mainly in the range of \$3.02 to \$8.69.³

21 As of November, 2000, the most recent date for which I have complete Vermont
22 data, GMP's customer charge for residential customers was \$10.90. At that time, CVPS's
23 monthly charge for residential customers was \$11.01, less than the new value proposed
24 by GMP in this proceeding. More importantly, the next highest charges in Vermont were

³ The states included were New Hampshire, Massachusetts, Connecticut and Rhode Island. There were two outliers. One was New Hampshire Electric Cooperative with a charge of \$20.00. I do not consider this utility to be comparable to GMP due to differences in size, load density, and governance. The other was Narragansett Electric Company with a charge of \$2.54, but I

1 \$9.24 (WEC) and \$9.01 (VEC). In addition, among the other electric utilities in Vermont,
2 the next highest monthly residential charge was \$8.30 (Northfield).

3 The Board can materially assist smaller customers and promote energy efficiency
4 by reducing the residential monthly charge. The proposed (and current) tariffs send an
5 anti-conservation signal, producing what is, in effect, a declining block rate. I
6 recommend that the Board direct GMP to set a monthly residential customer charge of no
7 more than \$9.00, and preferably \$6.00.

8
9 Q. What is your second concern with GMP's tariff designs on behalf of AARP?

10 A. The proposed increases in Special Charges Tariff amounts are extraordinarily
11 large and are not phased in. The rate shock would be extreme even if the costs were
12 justified. But more importantly, many of these charges hurt those who can least afford
13 them and are arguably discriminatory against those customers. Consider, for example the
14 proposed increase from \$52.00 to \$150.00 in the disconnection and reconnection charges
15 for "Other than normal working hours," which I understand means evenings and
16 weekends. A low income, elderly person dependent on electrically powered medical
17 equipment would, most likely, be able to move from one dwelling to another only with
18 the help of friends or relatives and, so, would need to do so on a weekend day. Likewise,
19 a household with all adults employed during normal working hours would face a similar
20 challenge, but it is the lowest income jobs that typically provide the least flexibility for
21 time off to attend to such matters during the work day.

22
23
24 Q. Do you have any further concerns on behalf of AARP about the manner in which the
25 Special Charges Tariff is determined?

26 A. Yes, several. First, the hourly rate of pay for Customer Operations Associate "B"
27 personnel used to calculate the indicated cost of after hours disconnection and

understand that an increase to \$3.25 has been proposed for this company.

1 reconnection is \$158.00, four and one-half times the normal fully burdened wage rate.
2 This seems unreasonable for a shift differential. It is my understanding that the
3 \$158.34/hour rate reflects payment of time-and-a-half overtime plus a further multiplier
4 for call out pay. It is not clear why call out pay is required in addition to overtime pay for
5 services provided on weekday evenings, which could be simply an overtime extension of
6 a regular shift in many instances. In addition, labor scheduling for this function is within
7 the Company's control, so it is not clear why overtime and call out pay are actually
8 necessary. Furthermore, if such services are scheduled in advance by the customer, it
9 would be reasonable to schedule shifts as needed to avoid overtime and call out pay.

10 Also, the charge for a returned check includes labor and truck charges for a site
11 visit to deliver a notice. It is my understanding that this trip is made, in part, to allow the
12 Company to commence disconnection procedures immediately. To the extent this is
13 benefits the Company, it would be reasonable for it to share the cost. In addition, the
14 Company should be directed to ensure that Customer Operations Associates carrying out
15 this task be provide an appropriate explanation of the various types of recourse that
16 customers have to avoid disconnection and how to exercise those options. They should
17 also be properly trained to perform this function and provided with appropriate
18 explanatory materials including the DPS Consumer Affairs Division contact information.

19
20 Q. What is your recommendation regarding the Special Services Tariff?

21 A. I recommend the Board require GMP to phase in any changes, set a more
22 reasonable charge for connections and reconnections outside normal hours, especially if
23 they are scheduled in advance, reduce by one-half the returned check charge, and ensure
24 that Customer Operations Associates carrying out the returned check function provide,
25 and are trained and equipped to provide, the informational services described above.

26
27 Q. Does that complete your testimony at this time?

28 A. Yes.